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Court says munis have relicensing preference

Don Minner
Associate Editor

WASHINGTON, D.C.—A federal appeals court panel has affirmed that municipal electric systems have a preference in obtaining hydro projects whose licenses are up for renewal.

Specifically, a three-judge panel of the U.S. Court of Appeals for the District of Columbia reversed a Federal Energy Regulatory Commission (FERC) decision and ordered the commission to give the license to operate the Merwin Dam in Washington to a local municipal corporation. Merwin has been operated for the past fifty years by Pacific Power & Light Company.

Utility spokesperson Glenn Gillespie admitted Pacific Power was "surprised" by the decision. He said the company is deciding whether to file an appeal with the Supreme Court or the appeals court.

Public power agencies and investor-owned utilities are in heated debate over whether a 'preference' exists in deciding relicensing cases. The Federal Power Act of 1920 does have a municipal preference provision. The debate hinges on whether the preference applies to new projects only, or to both new developments and ones which are up for relicensing.

The Merwin Dam is located on the Lewis River between Clark and Cowlitz Counties. It has a capacity of about 136-kW. Pacific Power has transmitted the dam's power to six states, but has not served local communities.

Bulk power

Public utility districts in each county receive bulk power from the Bonneville Power Administration and distribute it to their customers. The counties wanted Merwin, so they would no longer need to purchase power.

When the license to operate the dam came up for renewal in 1979, the

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Located on the Lewis River in Washington, the Merwin Dam creates a reservoir covering about 4,000 acres and containing more than 400,000 acre ft of water. A federal appeals court has ruled that the license to operate the dam be given to a local municipal corporation.

Equipment show reflects upbeat activity

The 1985 International Construction and Utility Equipment Exposition was the biggest ever, setting records in attendance, number of mechanized T/D construction and maintenance equipment exhibitors and amount of dislay and demonstration space used. The three-day show, held every two years, reflected a strong, positive business climate, a complete turnaround from two years ago. A photo report appears on pages 12 and 13.

U.S. letting transmission R&D leadership slip away

ST. CHARLES, IL—Fifteen years ago the U.S. "would have" been rated No. 1 in developing transmission technologies, according to the transmission department director of the Electric Power Research Institute.

Speaking at a recent National Association of Regulatory Utility Commissioners transmission conference, Narain G. Hingorani said the "picture doesn't look so good" for future U.S. research and development in transmission equipment. (See chart, p.3)

"It must be realized that apart from the fact that many European countries and particularly Japan have closed utility markets, there is a considerable percentage of utility revenue plowed back into R&D," he explained.

Utilities in Europe put an average of two percent of their revenue back into research and Japan uses three percent, said Hingorani. U.S. utilities only put aside an average of .3 percent of revenues for R&D.

"No industry can survive without an influx of new ideas, new materials and new concepts," he stressed.

Where utilities, industry research groups and government have been able to fund R&D to a reasonable extent, U.S. industry has remained in a leadership position. For example, Hingorani said the nation remains at the forefront in transformer, arrester, control and protection, power semi-conductor and HVDC research.

Manufacturers given up

However, he pointed out, in areas where business has been depressed for several years, manufacturers have given up on utilities.

"For example, 10 to 12 years ago," noted Hingorani, "the U.S. had the best technology in the world in the circuit breaker area; now the U.S. circuit breaker business has virtually all gone to Japan. The gas insulated substation business has been lost entirely to Europe and Japan. The business of porcelain insulators has virtualiy been lost to Japan.

"The business of CTs and PTs have departed for Europe and others such as underground cables, power semiconductors and line conductor may follow."

Long-term transmission planning has ceased being effective in the U.S., which could lead to future chaos, according to the EPRI director.

"The public could suffer frequent blackouts and even higher cost electricity because we lack enough transmission to utilize lower cost power sources," said Hingorani.

Risky to invest

The current depressed utility business makes it risky to invest in R&D, thus, he explained that the R&D burden has shifted even more towards organizations like EPRI, DOE, ESEERCO and utilities.

He told the NARUC conference attendees that utilities in this country have not built enough transmission in recent years. As a result, Hingorani noted that there is a shortage of transmission capacity in many areas of the nation.

"In this regard," he said, "the situation here is much more difficult than

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News Briefs

DON MINNER, Associate Editor

MSU reports lower earnings

● Middle South Utilities, Inc. (MSU) reported earnings per share of $2.07 for the first nine months of the year, down from $2.38 for the same period of 1984. Net income also decreased $15.5 million to $410.0 million. MSU attributed the declines to the failure of regulators to approve adequate rate adjustments for the Grand Gulf-1 nuclear plant. MSU's operating subsidiaries have been struggling to make payments on their shares of the unit. Louisiana Power & Light became the last of the four companies to receive limited rate relief, when the 19th Judicial District Court in Louisiana authorized the utility in October to immediately implement retail rates and charges to recover Grand Gulf costs. The increased rates will provide the company with a gross annual increase in revenues of $113.9 million. Also in October, Moody's Investors Service announced it was lowering the preferred stock ratings of LP&L from "b2" to "caa". Moody's said the downgrade reflects the omission of the quarterly dividend payable in November and uncertainty as to when it will be resumed.

'Buy American' bill passed

● Congress approved and has sent to President Reagan a $15.25 billion energy and water appropriations bill, which includes a "buy American" provision for federal power agencies. If the bill is signed, power marketing administrations and the Tennessee Valley Authority would be required to purchase their extra high voltage (EHV) power equipment from domestic manufacturers if the domestic equipment meets the agency's technical requirements and the cost of the equipment is not more than 25 percent greater than the price of the most competitive foreign bid. The provision, which would be in effect for one year, would not apply to the acquisition of spare parts, or to any purchases made before the bill is signed. According to the U.S. Dept. of Commerce, the EHV power equipment industry includes, transformers rated above 10,000-kVa; fuses rated above 2,300-V and above; circuit breakers rated 345-kV and above; relays, capacitors; surge arresters; AC/DC valves and controls; high voltage DC systems; and tapered tubular steel structures or structural units to support overhead transmission lines.

Utilities agree to merge

● Iowa-Illinois Gas and Electric Co. and Sherrard Power System have agreed to merge. "We believe the merger with Sherrard Power will be of benefit to customers of both utilities," said Iowa-Ilinois President Barry C. O'Brien. "By combining our organizations, we will be able to take advantage of economies in administrative and operational areas." Both boards of directors approved the $10 million merger in October. Iowa-Illinois will keep its name and the area now served by Sherrard will become the Sherrard Power System District of Iowa-Illinois. Currently, all of Sherrard Power's electric requirements are met by Iowa-Illinois under a wholesale agreement. Sherrard Power has 52 employees and approximatley 13,000 electric customers in Illinois.

China awards contracts

● The People's Republic of China has awarded the lead contracts for two high-voltage direct-current (HVDC) converter stations to BBC Brown Boveri. The firm said the stations will cost $870 million to construct. Both stations will be part of a 625-mile, 500-Kv transmission line that will run from hydro plants on the Changjiang River to the city of Shanghai.

WPPSS to preserve WNP-3

● The Washington Public Power Supply System received formal approval of its preservation and preventive maintenance program for Nuclear Project No. 3 (WNP-3) from the Nuclear Regulatory Commission. WNP-3 construction was halted in July 1983 when the project was 76 percent complete. WNP-1 was 63 percent complete when stopped in April 1982. The Supply System said it is the first utility to receive NRC approval for a preservation program at a partially completed nuclear plant. "This three-year effort will cost about $3 million for each plant," said Managing Director Don Mazur. "I feel it will be money well spent if it permits us to resume construction with complete documentation and verification that work already completed is acceptable." Following formal NRC acceptance of the total WNP-3 Readiness Review Program, the utility said efforts will be concentrated on WNP-1.

PacifiCorp ups dividend

● PacifiCorp increased its quarterly common dividend from 58 cents to 60 cents per share. Don Frisbee, chairman & chief executive officer, said the change reflects PacifiCorp's improved financial strength and real earnings growth. "Our earnings are currently 80 percent cash versus 50 percent for the electric utility industry overall," explained Frisbee. The company's electric utility, Pacific Power, contributes 55 percent of PacifiCorp's $2 bilion annual revenue. The increase brings the annual dividend to $2.40 from $2.32.

Uncollectible account survey out

● The National Association of Regulatory Utility Commissioners (NARUC) is making available copies of a recently completed survey of utility uncollectible accounts and service disconnections. The report tabulates the level of utility uncollectible accounts and the number of service disconnections for nonpayment from information collected from more than 350 electric and gas utilities. Copies of the Survey of Electric and Natural Gas Utility Uncollectible Accounts and Service Disconnections for 1984 can be obtained for $10 from NARUC, P.O. Box 684, Washington, D.C. 20044.

Tax reform would hit coal industry

● The U.S. coal industry would be hit with a 73 percent increase in tax liabilities if the federal tax reform plan proposed by the House Ways and Means Committee staff were adopted, says a new study. The National Coal Association said a recent Price Waterhouse analysis found that the package would mean an additional $1.6 billion in taxes over the next five years for the coal industry. Price Waterhouse said that President Reagan's tax proposal would boost tax liabilities of the industry 68 percent, a $1 billion increase. The main reason for the tax increase is the committee's plan to repeal the percentage depletion allowance, which is a method that mining companies use to recover the capital costs of a non-reproducible resource.

St. Lucie sets state records

● Florida Power & Light Company's St. Lucie nuclear unit 1 was shut down Oct. 20 for refueling after setting new statewide records for operation. The utility reports that its 827 MW unit had a capacity factor of 97.8 during 226 days of continuous on-line service—new Florida records for nuclear plant operation. The unit is scheduled to return to service on Dec. 26. FPL will replace approximately one-third of the reactor's 217 fuel assemblies.

New England utilities exchange power

● Public Service of New Hampshire agreed in October to exchange 200 MW of its oil-fired Newington plant for 200 MW of oil-fired capacity and 25 MW of gas turbine capacity owned by Connecticut Light and Power Company. PSNH said it expects the arrangement will save its customers more than $6 million in the next year. The utility wanted the capacity to replace power it will lose when the Newington plant goes down for maintenance. CL&P customers will benefit from fuel savings. PSNH said neither it, nor Connecticut Light & Power will pay a capacity or transmission charge.

Addison named Exec of Year

● Southern Company President Edward L. Addison has been named 1985 Energy Executive of the Year by the Association of Energy Engineers. The group chose Addison because of his role in the company's huge power plant construction program. Southern Co. intends to spend more than $2 billion annually through 1987. The group also cited him for his efforts in helping to diversify the company into other energy-related fields. He has served as president and chief executive officer of the utility since 1983.

CommEd granted rate increase

● Commonwealth Edison Co. was granted a $495 million rate increase in order to help pay for its $2.5 billion Byron-1 nuclear plant. The Illinois Commerce Commission voted four to three to approve the 11 percent increase in electric rates. The commission disallowed more than $50 million of Edison's request because it said the costs were due to the utility's delay in starting up the unit. The phase-in plan calls for two-thirds of the rate increase to go into effect initially, with the remaining one-third phased-in starting in Jan. 1987. Average residential rates will rise 14.7 percent , said the commission. ICC Chairman Philip O'Connor noted, "We want to avoid rate shock which could lead to customers dropping off the electric system which in turn would hurt those who have no other option but to remain." The two commissioners who dissented, Susan Stone and Mary B. Bushnell, said that the commission had not adequately determined that all costs associated with the construction of Byron-1 were reasonable. Commissioner Andrew Barrett voted for no increase.

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Pacificorp broadens diversification efforts into finance

CHICAGO—Pacificorp, the electric utility industry's most heavily diversified company, is pushing into the area of financial services, Chairman Don Frisbee told a recent meeting of Chicago security analysts.

The Portland, Oregon-based company recently purchased a Chicago-based leasing firm called Northwest Acceptance Corp. The acquired firm, with 1984 revenues of $40 million and assets of $220 million, will be operated as a separate subsidiary.

An existing subsidiary called Pacificorp Finance has been active in leveraged leasing investments. It has $125 million in assets and has invested $37 million.

Finance is Pacificorp's fourth major area of corporate activity, Frisbee said, joining the electric utility, a telephone business, and a coal mining venture.

Pacific Power, the electric utility accounted for 57 percent of 1984 revenue. Pacific Telecom, the phone company, accounted for 22 percent and NERCO, the coal operation, accounted for 21 percent.

The company's major problem, its involvement in the WPPSS nuclear project, is now behind it with a $300 million writeoff already taken, corporate executives told the analyst group.

Redeploying cash

The challenge now, said Frisbee, is "redeployment of cash flow," with several hundred million dollars of cash coming in to the corporation yearly. The company is in a strong financial position with net income up an average of 25 percent a year for the last five years. Rate of return on equity, at the allowed level of 16 percent, is twice what it was five years ago.

Electric utility capital spending is set at $150 million a year for the next five years with no new generation required, compared to $250 million a year for the last five. All capital will be provided for internally.

Further diversification is an attractive prospect for Pacificorp, but the company is still interested in the electric utility business. Electric demand in the company's existing service territory, largest in the U.S., is expected to grow at an annual rate of 2 to 3 percent. With a generous generating reserve margin, the company is working to raise that to 3 to 4 percent.

"We like the electric business," said Steven Raforth, Pacificorp's financial vice president. The corporation is looking to buy new service territories and has a bid outstanding for the electrical distribution system of Gillete, Wyoming. It had bid on the CP National territory that was sold to Idaho Power last fall.

The electric business accounted for 90 percent of the company's revenue until about 12 years ago, Frisbee recalled. Getting a jump on the trend now gaining momentum in the industry, the company started diversifying by purchasing two small telephone exchanges. That grew into the company's telephone subsidiary that is now valued at $500 million. Its largest component is the long distance telephone system in Alaska.

The other major diversification effort started right after the oil boycott in 1973 when company executives foresaw a runup in fossil fuel prices. They owned huge coal reserves in north central U.S. and saw an opportunity to market to other companies the one billion tons of coal it owned that it didn't need to fuel its own power plants.

NERCO

The mining subsidiary, NERCO, is now valued at $380 million. It has long-term contracts with eight electric utilities. (Wisconsin Public Service Co. recently signed up.) It sells 27 million tons of coal a year. The company recently went after the European steam coal market in a joint venture with Mitsubishi.

There have been some recent problems in the mining area. A contract dispute with Lower Colorado River Authority remains to be settled and expansion into precious metal mining has not been helped by low prices. However, NERCO's ROE has grown at an annual rate of 20 percent and company officials are optimistic about future prospects.

OFFERINGS OF SECURITIES BY INVESTOR OWNED PUBLIC UTILITY COMPANIES
($000)

	January 1 to September 30, 1985		January 1 to September 30, 1984	
	Total	Electric	Total	Electric
Long-Term Debt				
Offered Publicly	10,952,305	7,979,805	5,809,380	5,384,380
Offered Through Subscription	–	–	–	–
Offered Privately	241,582	191,582	376,500	341,500
Total Long-Term Debt	**11,193,887**	**8,171,387**	**6,185,880**	**5,725,880**
Preferred Stock				
Offered Publicly	445,000	445,000	668,000	568,000
Offered Through Subscription	–	–	–	–
Offered Privately	–	–	120,000	120,000
Total Preferred	**445,000**	**445,000**	**788,000**	**688,000**
Common Stock				
Offered Publicly	1,790,971	1,281,196	709,343	681,689
Offered Through Subscription	–	–	–	–
Total Common Stock	**1,790,971**	**1,281,196**	**709,343**	**681,689**
Total Financing	**13,429,858**	**9,897,583**	**7,683,223**	**7,095,569**

Source: Ebasco Business Consulting Company - October, 1985 (Preliminary)

Utility financing up in first 3 quarters

NEW YORK—Total utility financing during the first nine months of 1985 was $13.4 billion, 74 percent higher than the $7.7 billion issued during the same period last year.

A report prepared by Ebasco Business Consulting Company found that electric utility financing in the first three quarters rose 39 percent to $9.9 billion. That includes $3.8 billion of pollution control revenue bonds.

Long-term debt

Long-term debt issued by electric utilities increased to approximately $8.2 billion, from last year's $5.7 billion. Total long-term debt issued by all utilities almost doubled to $11.2 billion, compared to $6.2 billion in the first nine months of 1984.

Preferred stock financing by electric utilities in the period was down sharply to $445 million, from 1984's $688 million. Offerings of preferred stock by all utilities also dropped, from last year's $788 million to $445 million in 1985.

Common stock

Common stock financing for electric utilities doubled to about $1.3 billion, from 1984's $682 million. Total utility common stock financing in the first nine months was $13.4 billion, a sharp increase from last year's $7.1 billion for the same period.

PG&E to acquire Pacific Gas Transmission Co.

SAN FRANCISCO—Pacific Gas & Electric Co. and Pacific Gas Transmission Co. announced October 24 that they have entered into a definitive merger agreement by which PGT will become a wholly-owned subsidiary of the utility.

Pacific Gas & Electric presently owns 50.2 percent of the outstanding PGT shares.

Under the agreement, PG&E will buy all 4,648,454 shares of PGT common stock in exchange for PG&E common stock valued at $30.50 per share of PGT common stock.

To be completed

The utility said it anticipates the merger to be completed sometime around April 1986.

PGT's principal business is the operation of a natural gas pipeline between Alberta, Canada and California.

Will Chicago pull plug on Commonwealth Edison?

CHICAGO—Upset with steadily increasing electricity costs, the city of Chicago is studying the possibility of buying its power from someone other than Commonwealth Edison.

Chicago Mayor Harold Washington has asked his planning department to study options for obtaining electricity elsewhere. Heading up the inquiry will be Director of Energy Management Charles Williams.

"Projections vary, depending on the plans of Edison," speculated Williams, "but we expect to see rate increases of as much as 40 percent in the next few years."

Williams told *EL&P* the city spends between $32 and $34 million per year for its electricity. The city pays an average of six cents per-kilowatthour for power for its municipal facilities and O'Hare Airport. Electricity for streetlights costs about four cents per-kWh, he noted. Total electricity usage for the city's municipal facilities last year was 670 million-kWh.

In addition to rising costs, Williams said the study also was prompted by the recent decision of the city of Geneva, Il. to look into leaving the Edison system to obtain cheaper power from Wisconsin.

"This isn't meant as a blow against Commonwealth Edison," stressed Williams. "We want to evaluate our choices as a consumer."

Among the options the city will consider is purchasing power from other sources and wheeling it through Edison's system. Also, the group will look into the possibility of establishing a municipal generating company.

Williams said the evaluation will examine the feasibility of buying the utility's distribution network.

Municipal waste-to-energy plants could also be a partial solution to the city's high bills, he added. Chicago has approximately seven to ten years of useful landfill space left.

Commonwealth Edison spokesman John Hogan admitted the city's announcement took the utility by surprise. Even an Edison official serving on the Mayor's Energy Commission did not know of the study proposal, noted Hogan.

He called the options "impractical and uneconomical."

When added together, Chicago's municipal facilities, O'Hare Airport, and streetlights make the city Edison's third largest customer.

Hogan explained why one option would be uneconomical. "If they wanted to buy our distribution system, it would cost in excess of five billion dollars. And that doesn't even include any generating facilities," he said. "I don't believe they have that kind of capital."

If the city wanted to wheel power through Edison's system, it might not be economical either, Hogan said.

"We own the electric highway into the city," he stated. "We would have to negotiate a price for them to use it and they might find it too high."

Agreement expires soon

The franchise agreement between Chicago and the utility expires in 1990 and no negotiations on a new pact have begun, pointed out Hogan.

"We're wondering if this may not be the opening salvo," he questioned.

Chicago's money would be better spent on hiring an energy consultant, believes Hogan. He said the utility has offered to sit down with the city and discuss ways to achieve energy efficiencies.

Williams pointed out that the utility recently cut the rates of some municipal districts by as much as 30 percent, in exchange for the municipalities agreeing not to leave the system.

However, Williams said, the study "shouldn't be perceived as a bargaining chip. This is not an effort to have Edison subsidize the city."

Seven municipalities in the area buy wholesale power from the utility and distribute it themselves. Hogan said all have, at some time, talked about pulling out, but only Geneva (Pop. 8,900) has gone very far with the idea.

"The ball is in their (Geneva's) court," said Hogan. We have made them an attractive counter-offer to keep them on the system."

If the city does go elsewhere for its electricity, Hogan said there would be no reason for the utility to retain its headquarters in Chicago.